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Nigeria: Implications of the Oil Slump [redacted]

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An Intelligence Assessment

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Nigeria: Implications of the Oil Slump [redacted]

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An Intelligence Assessment

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This paper was prepared by [redacted] Office of African and Latin American Analysis. Comments and queries are welcome and may be addressed to the Chief, West-East Africa Division, ALA, [redacted]

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This paper was coordinated with [redacted] the National Intelligence Council. [redacted]

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Nigeria: Implications of the Oil Slump

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Key Judgments

Information available as of 24 November 1982 was used in this report.

Nigeria, the United States' third-largest supplier of imported oil, is being hurt by the soft world oil market for the second year in a row. We estimate that a substantial drop in oil production and reduced prices have diminished revenues for 1982 by more than 40 percent below the level of 1980. At the same time, import spending has led to a cumulative current account deficit of $12 billion. President Shagari imposed limits on expenditures in April 1982 after foreign exchange holdings dropped to less than enough to cover two weeks' worth of imports.

We believe that Nigeria's economic difficulties will become more severe in the months leading up to the campaign for general elections in mid-1983. Commodity shortages have already been reported in northern Nigeria, the rate of inflation is increasing, and the government is resisting public pressure for higher wages. Real economic output is down sharply for 1982, and Nigerian labor leaders claim that 45,000 workers have already been laid off.

Although Nigerian oil production is now roughly two-thirds of its normal average of 2 million barrels per day, Lagos could try to boost sales by offering more generous credit terms or unofficial discounts to foreign buyers. In our view, however, market conditions are such that only a deep price reduction would increase exports significantly; we believe any such reduction or other discounts would provoke a similar move by Lagos's competitors, thereby sharply limiting the new marketing opportunities for Nigeria.

We believe Shagari will be forced to continue or strengthen current austerity measures through most of 1983. Because the impact of such measures—shortages of goods, rising prices, and increased unemployment—will become more obvious as the election nears, Shagari's opponents will be quick to exploit consumer unrest as evidence of economic mismanagement.

We believe the government is likely to minimize popular dissatisfaction by shifting imports temporarily away from capital equipment to consumer items. This will hurt the country's import-dependent manufacturing sector, intensify the urban unemployment problem, and virtually compel unpopular economic reform in the postelection period, when political constraints will weigh less heavily. In our judgment, sudden additional postelection economic retrenchment—particularly should Shagari be reelected—will generate a sense of betrayal among the public and the defeated politicians

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and could spark widespread disorder. Sentiment would grow for a coup, particularly among economically disadvantaged enlisted men and lower ranking officers, who are already disillusioned with corruption and economic drift.

We believe Shagari will increasingly look to the United States for financial assistance. Citing Nigeria's longstanding role as a reliable source of US energy needs, he may seek increased sales of Nigerian oil for the US Strategic Petroleum Reserve, a food-for-oil barter agreement, or a substantial emergency loan similar to that arranged with Mexico. If Nigerian leaders are unhappy with the US response, it is possible that they might become less supportive of the United States on the Namibian issue, blame Washington for the oil surplus, or subject US oil companies to bureaucratic harassment. As long as present oil market conditions persist, however, we do not expect Lagos will try to use its "oil weapon" by denying US companies access to Nigerian crude.

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Figure 1
Nigeria: Industrial, Mining, and Agricultural Activity

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Nigeria: Implications of the Oil Slump

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The Oil Glut Returns to Nigeria

It is our judgment that the downturn in world oil demand that began in 1981 is moving Nigeria toward its most serious economic crisis since the 1967-70 civil war. According to US Embassy sources and official Nigerian data, oil production during 1981 dropped by 30 percent from the previous year's total because of reduced oil consumption and major changes in inventories of Western oil companies. We believe that production was also hurt by Nigeria's refusal to align its prices with those of other producers of light, low-sulfur crude—Libya, Algeria, and the United Kingdom. By late summer 1981, output was down to 708,000 barrels per day, a 10-year low. Only a decision in September to cut prices kept production from declining further.

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Petroleum exports account for nearly all of Nigeria's foreign exchange earnings, and the sizable decline in oil sales had a dramatic effect on the country's international financial position. Export receipts in 1981 were down by 30 percent from the level in 1980. Import expenditures, on the other hand, reached a record high, reflecting what we believe was the government's desire to get its 1981-85 development program off to a strong start. The combination resulted in a substantial change in Lagos's current account position. Instead of a surplus, which was $4 billion in 1980, we estimate that the Shagari administration in 1981 was saddled with a deficit in excess of $5 billion, at that time the country's largest ever.[1] The government covered the deficit by a substantial drawdown in foreign reserves, which had been built up to more than $10 billion by the end of 1980, and by lining up $3 billion in Eurocurrency loans.

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The oil slump also had a significant impact on overall economic activity. Official statistics indicate that the current account deficit helped push inflation to over 20 percent, nearly double the 1980 rate. At the same time, a 30-percent reduction in the oil industry's contribution to GDP and only marginal increases in agricultural output were instrumental in the decline of overall economic growth by 2.4 percent for 1981.

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Patterns in 1982

Domestic Retrenchment. This year's economic performance has also been dominated by the effects of the continued slump in world oil demand. According to industry data, Nigerian oil production has once again shown monthly changes, but the average has remained close to 1.3 million barrels per day. Shagari has held fast on prices in the face of strong competition from Libya and North Sea producers, but we believe he took this course in hopes of obtaining at least $1 billion in concessionary loans initially offered by Saudi Arabia last spring. According to US Embassy sources, Riyadh subsequently reduced its offer of support to $400 million because of its own growing financial difficulties, but Lagos turned it down.

Despite the austerity measures, Lagos has pushed ahead on such priority projects as a local steel industry, the new federal capital at Abuja, and transport facilities.

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[1] The basis of these and other estimates in this paper is explained in the appendix on methodologies.

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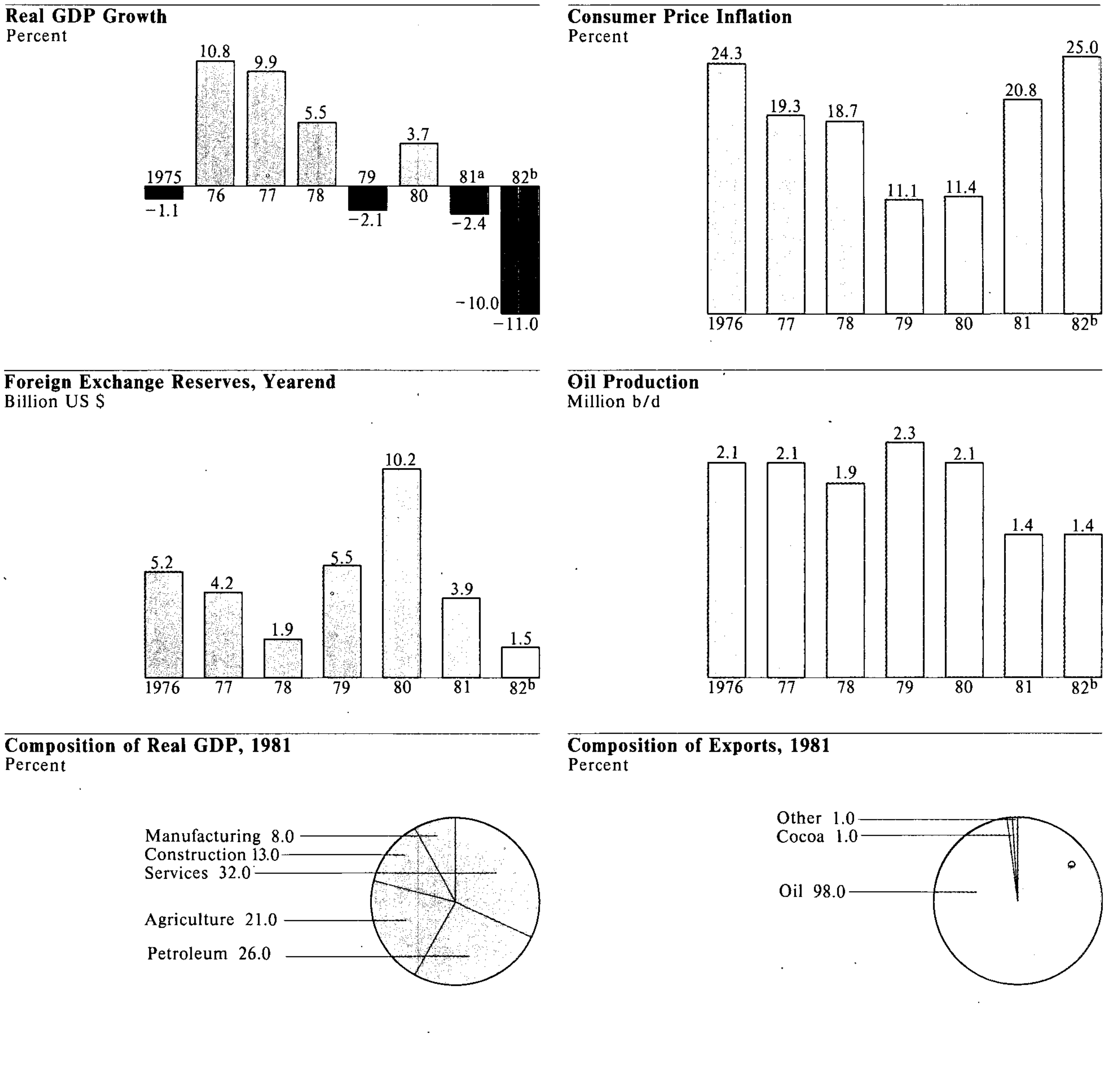
Figure 2
Nigeria: Selected Economic Indicators



[a] Estimated.
[b] Projected.

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Oil: A Blessing and a Curse

Nigeria's relatively strong past economic performance—real GDP grew at an average annual rate of 5.5 percent from 1975 through 1980—belies a number of serious social and economic problems. Even with oil wealth, a 3.3-percent population growth rate keeps GDP per capita among the 80 million inhabitants below $800, one-tenth that of fellow OPEC member Gabon. In addition, rampant corruption concentrates a disproportionate share of the wealth in the hands of a few. [redacted]

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The oil boom of the mid-1970s accelerated an already significant change in urban/rural terms of trade in favor of the cities. The migration of young, productive farm laborers made Nigeria, formerly a major agricultural exporter, a substantial importer of food. [redacted] *food imports totaled nearly $4 billion in 1981, one-fifth of total imports. Because inflation, averaging roughly 18 percent annually from 1975 through 1981, drove up labor costs, imported consumer goods were cheaper than those manufactured domestically. Still, foreign exchange constraints and trade controls hampered the flow of imports enough to encourage an already flourishing black market.* [redacted]

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Along with other OPEC members, Nigeria used its newly found oil wealth to pursue an ambitious program to diversify its economy before present oil reserves are depleted by the end of this century. Nevertheless, we estimate that expenditures since 1975 of about $60 billion have had little impact on the country's economic structure; oil still accounts for 80 percent of government revenues and over 95 percent of export earnings. Most of the funds dedicated to "development" have gone to finance projects such as office buildings, roads, and cultural facilities that have resulted in no significant expansion of economic output. In our view, establishment of an industrial base is not much further along than in 1975, while agriculture—the key to Nigeria's economic future—has been especially neglected. [redacted]

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[redacted] Unpublished Nigerian Government data available through June 1982 indicate that the flow of federal money continued uninterrupted to those states already controlled by the ruling National Party of Nigeria (NPN) and to politically important swing states such as Bendel, Nigeria's major oil-producing area, which is currently controlled by the leading opposition party. [redacted]

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State and local governments not favored by the Shagari administration, on the other hand, are already feeling the impact of federal budget cuts. Almost all of these institutions depend on Lagos for most of their revenues, according to Nigerian statistics. Lagos's decision to guarantee no more than $300 million in foreign loans for each state has slowed or stopped a number of development projects, mainly education and housing, which are the primary areas of state and local investment. [redacted]

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Effects on the Economy. It is our judgment that the full impact of almost two years of depressed oil sales is only now beginning to be felt across the country. US Embassy sources report that goods are becoming scarce, especially in the north, as inventories are depleted and the rate of import slow. Prices are on the rise—the cost of rice, a dietary staple, has almost doubled since September. We expect inflation will reach 25 percent by the end of this year, somewhat higher than estimates by Nigeria's Central Bank. [redacted]

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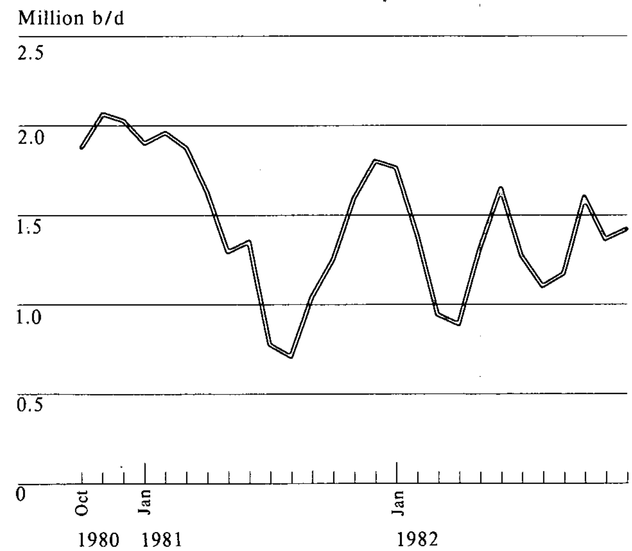
Unemployment is also up and may exceed substantially last year's rate of nearly 15 percent in the urban areas. Local press and US Embassy reporting indicate that the requirement for importers to deposit in advance funds equal to the cost of the imported goods and the closure of private jetties—both measures enacted as part of last spring's austerity program—have caused raw material shortages that are forcing

Figure 3
Nigeria: Crude Oil Production



[redacted]

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the shutdown of smaller firms and layoffs in larger factories. If the Peugeot automobile assembly plant in the northern city of Kaduna does not get parts soon, for example, 4,200 laborers will lose their jobs. Moreover, substantial numbers of construction workers are out of work as Lagos holds up funding for roads, housing, and other projects. According to recent US Embassy reporting, national labor leaders, who claim a union following of 800,000 to 1 million, maintain that unemployment rolls have increased by 45,000 so far this year. [redacted]

We estimate that real output for 1982 will decline by as much as 9 to 10 percent. This reflects not only the drop in oil production but also the critical role oil revenues play in determining the level of activity elsewhere in the economy, particularly in construction and services. [redacted]

Muted Public Reaction. Despite signs of the beginning of a sharp contraction in the economy this year, available evidence reveals little adverse popular reaction so far. Traditional barometers of public dissatisfaction—organized labor and university students—show no signs of unusual restiveness, despite recent Embassy reports of repeated work stoppages in some urban areas and student frustration over poor campus living conditions and bleak job prospects on graduation. (Recent rioting in the predominantly Muslim north was caused by religious, not economic, grievances.) Although there are sporadic rumors of coup plots by junior and midlevel officers and enlisted men—mostly related to disgruntlement over salaries and promotions—we believe economic strains have not yet increased sufficiently to provoke a coup. [redacted]

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We believe there are a number of factors that could explain this lack of popular reaction. More than 60 percent of the population relies on subsistence agriculture for a living and has only minimal basic needs that require contact with the modern economy. In addition, we anticipate that key urban areas have yet to feel the economic pinch, in part because merchants have used existing inventories to keep shelves well stocked. Neither has the increase in unemployment become an intolerable financial burden on the extended family system that traditionally supports those out of work. Moreover, the US Embassy reports that government employees, both civilian and military, received a 9-percent cost of living increase last September. [redacted]

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If, as we expect, import restrictions and spending cuts begin to affect more heavily general business activity and government programs, we believe there is potential for increased discontent by labor, students, and the lower ranking military. Previous experience shows that these groups are among the first in Nigeria to be affected directly during hard economic times. [redacted]

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Foreign Financial Developments. We estimate that for 1982 Nigeria will run a record current account deficit of $6-7 billion. The fall in oil sales will reduce total export earnings to the lowest level since 1978. Imports could decrease by as much as 8 percent, reflecting both the impact of the appreciation of the US dollar relative to other Western currencies and

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Nigeria: Selected Financial Data

Billion US $
(except where noted)

	1977	1978	1979	1980	1981	1982 [a]	1982 [b]	1983 [c]	1983 [c]
Current account balance	**−2.6**	**−5.1**	**0.8**	**3.9**	**−5.4**	**−7.1**	**−6.2**	**−6.5**	**−5.6**
Trade balance	1.3	−1.9	5.2	9.0	−0.6	−2.1	−1.3	−1.2	−0.4
Exports (f.o.b.)	10.9	9.6	17.0	24.9	17.0	14.9	14.9	16.3	16.3
Oil	10.1	8.6	15.9	23.9	16.7	14.4	14.4	15.8	15.8
Nonoil	0.8	1.0	1.1	1.0	0.3	0.5	0.5	0.5	0.5
Imports (f.o.b.)	9.7	11.5	11.8	16.0	17.6	17.0	16.2	17.5	16.7
Net services and private transfers	−3.9	−3.2	−4.3	−5.0	−4.8	−5.0	−4.9	−5.3	−5.2
Foreign reserves at yearend [d]	4.2	1.9	5.5	10.2	3.9	1.5	1.5	1.5	1.5
External debt at yearend [e]	1.8	3.1	4.5	6.0	9.0	12.0	12.0	NA	NA
Debt service ratio *(percent)*	6.4	8.2	4.1	4.0	11.0	15.0	15.0	NA	NA

Assumptions:
[a] Nigeria's nominal oil price remains flat at $35.50 per barrel, oil production averages 1.4 million barrels per day, import volume remains unchanged, and import prices drop 3 percent.
[b] The above assumptions on oil prices and volumes remain unchanged. Import prices fall 3 percent, and import volume drops 5 percent.
[c] Nigeria's nominal oil price remains flat but with a slight increase in production to 1.5 million barrels per day. Import price inflation is estimated at 3 percent, and there is no change in import volumes from the 1982 scenarios.
[d] Excluding gold.
[e] Medium- and long-term public and private debt.

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[redacted]

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import restrictions. Organization for Economic Cooperation and Development trade data suggest, however, that these restrictions took hold only last June, after Lagos had time to process foreign exchange applications issued before the austerity program was implemented in April. We expect the service deficit will rise somewhat, primarily as a result of rapidly rising interest payments on debt and a sharp drop in income-generating overseas bank accounts. [redacted]

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Financing this deficit, in our judgment, will be considerably more difficult than last year. Lagos has drawn down its reserves to between $1.5 billion and $1 billion, where they have remained since April. We believe that this is a minimum level and that Nigeria will use these funds to pay its bills only as a last resort. In addition to its own foreign exchange, Lagos has probably utilized previously signed international credits—local officials claim as much as $2.1 billion in available funds—and is amassing short-term arrears. [redacted]

[redacted] Lagos has at least $2 billion, possibly $3 billion, in short-term commercial arrears; press sources claim the amount may be as high as $5 billion. [redacted]

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[redacted] many foreign banks—including Nigeria's largest—have ceased further credit extensions because of the government's delays in interest and principal payments on letters of credit for imports. Nigeria currently is seeking a $2 billion loan to pay off the arrears, but is having difficulty lining up subscribers. [redacted] Lagos will obtain only $750 million, barely enough to cover overdue interest payments. We believe that bankers will prefer to await the outcome of Mexico's and Brazil's financial crises before making any decisions on extending significantly their exposure in Nigeria. [redacted]

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Outlook for 1983

Government Options. We believe that in 1983 Nigeria must come up with some way to increase revenues, most likely by boosting oil sales, or continue fiscal and

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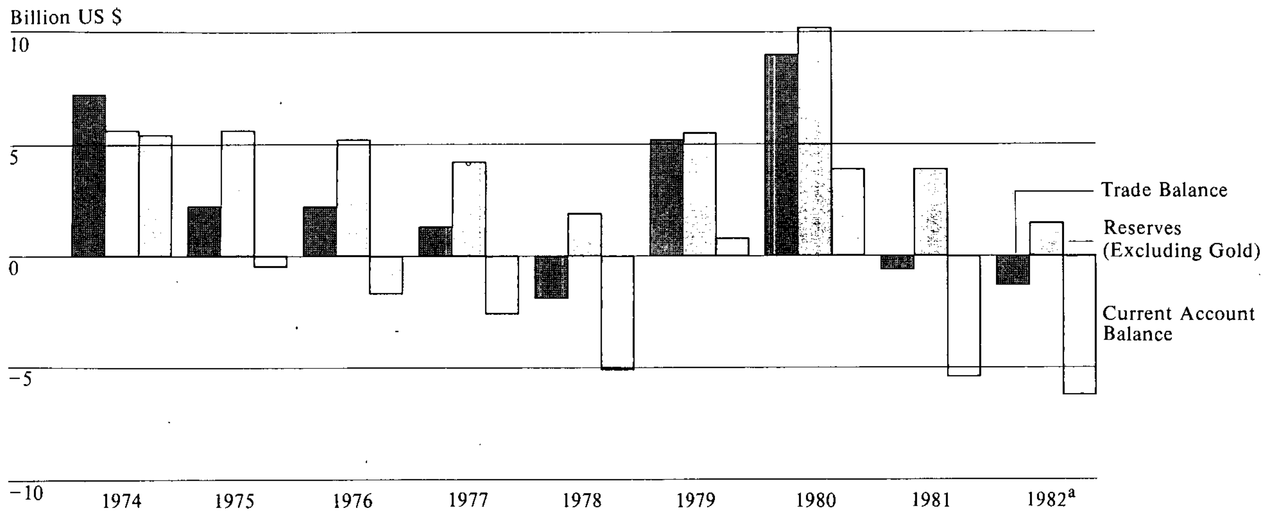
Figure 4
Nigeria: Selected Foreign Financial Indicators



[a] Estimated.

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[redacted]

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import controls, or both. Assuming that official prices remain steady at the current average of $35.50 per barrel, each 100,000 barrels per day in additional liftings raises government revenues by an extra $100 million a month. We expect that Lagos will not violate its agreement with OPEC by unilaterally lowering its official sales prices because Shagari's oil adviser Yahaya Dikko recently assumed the OPEC presidency. We believe it is more likely that the government will offer more generous credit terms or unofficial discounts; oil industry sources claim that Libya has used the latter method to enable it to double its production in the last few months. [redacted] one US company already receives a rebate for its purchases of Nigerian crude. We suspect that the market response to a change in Lagos's pricing policy will probably be limited; any general discount would provoke further price cutting within OPEC, sharply limiting the stimulus that lower prices would provide for Nigerian sales. [redacted]

In the likely event that Nigeria is able to realize only limited revenue gains through oil price reductions or discounts, the government will be virtually forced to pursue simultaneously a second option: the continuation or strengthening of the austerity measures implemented in April 1982. This will entail continued restraint on federal and state government spending and limits on imports that will become even more restrictive. In this situation, we believe that—absent some unusually good growing conditions in agriculture—real output and economic growth will stagnate, and unemployment and inflation almost certainly will continue to rise. [redacted] 25X1

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Probable Impact on the Economy. If, as we expect, world oil demand only recovers a bit in 1983, Nigeria faces another hefty current account deficit, although less than this year's record. Oil industry officials project that oil production will average 1.5 million barrels per day, which would bring export earnings to 25X1

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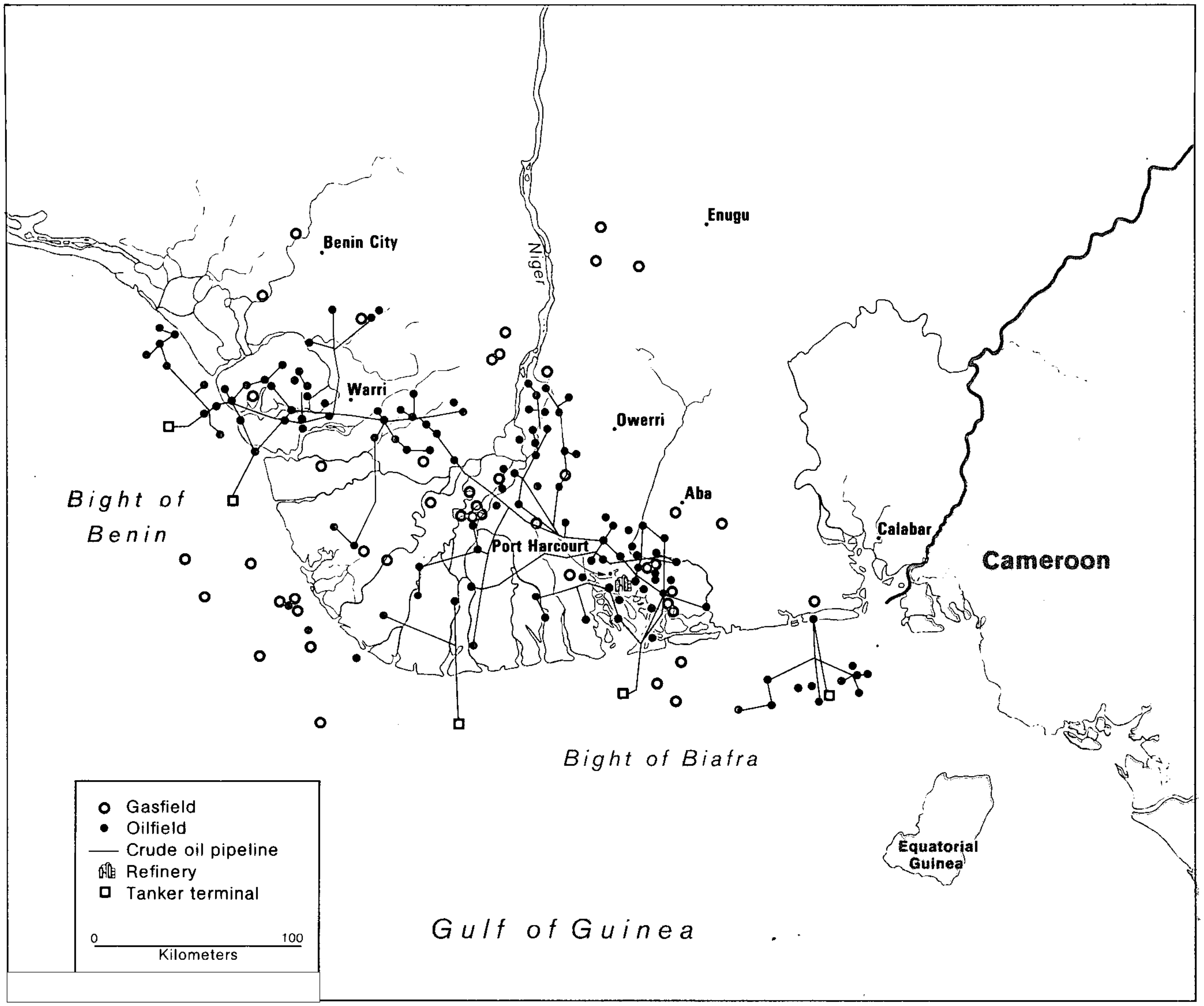
Figure 5
Nigeria: Oil and Gas Facilities



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approximately the 1979 and 1981 levels. Even if Lagos is able to hold the volume of imports to this year's level, we believe that international inflation will still boost import costs by at least $500 million. Service expenditures will continue to increase, as debt payments and transport fees offset any reduced government spending associated with the austerity program.

Covering a current account deficit of nearly $6 billion will be difficult. We believe that Lagos will continue to hold its international reserves within the current $1-1.5 billion range—about one month's worth of imports. At the same time, Nigeria cannot afford to add to arrears without risking a cutoff of bank credit

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or refusal by banks to handle letters of credit altogether. Shagari's proposed budget for next year provides for international borrowing of $4.5-5 billion, but current difficulties in trying to line up less than half that amount suggest that Lagos will fall considerably short of its objective. [redacted]

Political Dangers. We believe that Shagari will try to minimize chances that Nigeria's financial problems will provide his opponents with a campaign issue. The political opposition has not made the economy a campaign issue so far, but this could change quickly as the election campaign heats up and as the adverse impact of government austerity measures becomes more noticeable. Another complicating factor would be if a traditional slump in world oil demand in the spring again cuts Nigerian production by up to one-half. Some local observers speculate that opposition leaders have held off making an issue of the economy for fear that such a move could backfire if austerity measures or an increase in oil sales improve the country's financial outlook by the time of the summer elections. We believe it more likely that opposition leaders recognize that Shagari astutely has not set goals by which the effectiveness of his plan can be easily measured. [redacted]

We anticipate that the Shagari administration will use a number of means to counter any attempts by the opposition to arouse public opinion over economic issues. We expect Shagari will draw on his extensive campaign war chest—funded by wealthy Nigerian businessmen—to bolster the flow of imports. [redacted] In addition, the administration will probably point to both profligate spending by the opposition-controlled state governments and to various external factors. Earlier this year, for example, Lagos accused the United States and the United Kingdom of engineering the world oil glut and the decline in oil prices that resulted in the drop in Nigerian production and revenues. [redacted]

The government will also be watching the 100,000-man military, which we judge to be the key to continuing stability. US Embassy reporting over the past several months suggests a growing perception in the military that civilian government has brought increasing corruption and economic drift. Government authorities have already suggested that the military be used to monitor and ensure fair voting during next year's elections. If the Army is called on to intervene in the event of political campaign disorders, the perception could build—particularly among the lower ranks—that soldiers are being used to protect narrow political interests rather than to preserve national unity. We believe frequent use of the military to restore public order would breed contempt for civilian institutions among the soldiers who would—particularly during hard economic times—begin to question civilian ability to run the country. [redacted]

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We expect that in the politically sensitive preelection period the administration will attempt to insulate the military from severe spending cuts to ensure its loyalty. In his 1983 budget speech in November, the President promised to increase military spending. This policy may bolster the loyalty of the senior officers, who have a vested interest in preserving the status quo and are probably not eager to reassume the burdens of leadership. But the recent trend in Africa toward economically inspired coups by dissatisfied and idealistic junior officers and enlisted men amply demonstrates, in our view, that a coddled and reliable senior officer corps does not ensure a coup-free military. [redacted]

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Implications for the United States

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If these economic trends contribute to growing popular dissatisfaction with President Shagari during the election campaign, we expect Lagos will turn to Washington as an important source of financial assistance. Nigerian officials could claim that Washington has a special obligation to maintain Nigeria's US-modeled political system. They also are likely to point out that Lagos came to Washington's assistance during the Arab oil embargo in 1973 and has continued to be a reliable supplier of petroleum. In addition, US officials may be reminded that Nigeria, which considers itself a de facto member of the Front Line states, has played a moderating role in the Namibia negotiations, and, at Washington's urgings last year, participated in the peacekeeping force in Chad even at the cost of some of its increasingly scarce foreign exchange [redacted]

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We believe that Lagos may request emergency financial aid similar to that given to Mexico. [redacted] Nigerian officials were monitoring closely US-Mexican negotiations last August that resulted in Washington's agreeing to provide Mexico with a $1 billion cash advance for oil intended for the US Strategic Petroleum Reserve and another $1 billion in food credits. Additional comments by the Nigerians suggest to us that they believe their government deserves similar preferential treatment from the United States. Along with cash and oil purchases, Lagos could request concessional food aid that would enable it to use its foreign exchange for other purposes. [redacted]

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New strains could develop in US-Nigerian relations if Nigerian leaders conclude that the United States and the West are not doing enough to help Nigeria through its financial difficulties. Retaliatory moves might be taken by Lagos, although these would be implemented with an eye toward their impact on the Nigerian economy. The least costly would be to heighten Nigeria's criticism of US initiatives on Namibia. The government may also decide again to blame Washington publicly for the world oil surplus and for Nigeria's economic ills in order to divert domestic political pressure from the regime. In addition, Lagos could subject US oil, and other, companies operating in the country to various kinds of bureaucratic harassment. Practices used in the past included deliberately delaying the processing of foreign exchange applications for imports and repatriation of profits, and refusing to grant work permits for essential expatriate personnel. In our judgment, however, the presence of a soft oil market sharply limits the likelihood that Nigeria would deny US companies access to its crude. [redacted]

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The Postelection Period

Even if the government minimizes popular dissatisfaction through the spring and summer campaigning, we believe a more worrisome situation could develop in Nigeria after the elections if there is no improvement in the world oil market. Should the economic downturn continue beyond the elections, the government may be forced to adopt even tougher reforms that we believe would spark wider dissatisfaction and disillusionment with civilian government. An examination of past Nigerian elections also leads us to conclude that the loser—whoever he may be—is not likely to suffer defeat quietly. As in the past, widespread accusations of election rigging, bribery, and fraud will be directed against the winner. Any outbreaks of serious violence could easily spiral beyond the capabilities of the weak police force and increase pressure on the military to intervene. In our view, support for such a move could be especially strong among the lower ranks—junior to midlevel officers and enlisted men—who can least afford to deal with the consequences of greater austerity. [redacted]

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If degenerating political and economic conditions resulted in a coup by the predominantly Western-oriented senior officer corps, US-Nigerian bilateral relations probably would not be fundamentally changed. We believe the military might resort to strong anti-US rhetoric over southern African issues in a bid for domestic popularity, but the risk of damage to Nigeria's economy would probably preclude more serious steps, such as reorienting oil sales away from the United States or boycotting US firms doing business in both Nigeria and South Africa. [redacted]

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A takeover of the government by lower ranking military personnel in the style of coups in Liberia and Ghana would, in our view, almost certainly be more violent and followed by a period of instability. We believe such a government probably would be dominated by ill-educated, populist-oriented soldiers lacking expertise and sophistication to develop effective policies, especially in the realm of economics and international affairs. The new government, in our judgment, not only would prove considerably more difficult to deal with but it might be tempted—in the absence of "satisfactory" aid from the West and international financial community—to explore closer cooperation with the Soviets and radical Arab and African states. [redacted]

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Appendix

Methodological Notes on Economic Forecasts

In assembling and producing the various economic data presented in this assessment, it was necessary to be highly selective and to rely primarily on the analysis of several US Government and nongovernment sources. In addition, we had to make various assumptions concerning the performance of the world economy and key commodity markets. [redacted] 25X1

Official Nigerian data posed serious problems. Almost all series suffer from the lack of internal consistency, timeliness, and frequent unexplained changes. Many of the series include data only from Lagos and ignore developments in other areas of the country, such as the northern cities of Kano and Kaduna. Some series, particularly the widely cited Lagos consumer price index, are useful only in setting the lower limits of change. [redacted] 25X1

Accordingly, we used several other sources to establish or corroborate primary data. Our principal source was the International Monetary Fund, whose annual consultations with the Nigerian Government and periodic publications produce the most current and consistent series of data on domestic economic indicators. In addition to the Fund, we were able to draw from forecasts provided by the Economist Intelligence Unit [redacted]

Trade and International Financial Developments
In preparing our estimates of Nigeria's current account position for 1983, we relied on certain key assumptions about factors affecting demand for OPEC—and Nigerian—oil:

- We assumed only a slight economic recovery in major industrialized countries that will result in average OECD growth of about 2.0 percent. This assumes that activity in major Western economies will not pick up until some time during the first half of 1983. Our growth rate of 2.0 percent also falls within the range of 1.5 to 2.5 percent that Embassy sources report will be the new official projections of the Organization for Economic Cooperation and Development (OECD).
- We assumed that the process of satisfying a substantial share of international oil demand by drawing down global oil inventories will have been completed by the end of 1982. Some further drawdowns of stocks may be in order if economic recovery in the major industrialized countries is less than we are projecting. [redacted] 25X1

Together, these conditions should result in demand for OPEC oil of 20-21 million barrels per day in 1983, slightly above the level for 1982. Assuming Nigeria will account for about the same proportion of total OPEC production that it has since the mid-1970s—7 percent—Lagos would produce on the order of 1.5 million barrels per day. We believe this underlying assumption is sound because available evidence suggests no major alteration in oil demand patterns that would allow Nigeria to increase its traditional part of OPEC output. [redacted] 25X1

This level of output would permit oil sales on the order of $16 billion for 1983. We base this value on world oil prices holding steady in the current $32.50 to $33.00 barrel range, with no changes in existing quality and transportation premiums. This would allow Nigeria to price its low-sulfur crude at an average of $35.50 per barrel. [redacted] 25X1 25X1

In deriving our estimates for expenditures for imported goods for 1982, we assume that the austerity program announced in April 1982 will have some impact on deliveries by the last quarter of this year. This is supported by trade data available from Nigeria's principal partners—the United Kingdom, France, West Germany, the United States, and Italy—through August 1982, which indicate a steady decline in imports beginning in late June. (Typically, Nigerian imports lag behind the trade partners' equivalent exports by a quarter or more.) [redacted] 25X1

We do expect some loosening of import restrictions preceding the 1983 elections, but we believe that foreign exchange shortages will necessitate another

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clampdown on import flows after the elections are completed in August. As a result, we project little if any real increase in imports next year. We estimate that nominal import costs will rise by about 3 percent, however, reflecting the domestic inflation rates of Nigeria's major overseas suppliers and an increase in the yearly average value of the dollar relative to the currencies of other industrialized countries. [redacted]

We also expect a modest increase in expenditures for imported services next year. The primary factor is a substantial boost in interest payments on foreign debt, as reflected by data provided by the World Bank on medium- and long-term debt. An offsetting element will be the reduction in consultant and other kinds of fees paid to overseas firms because of the slowdown in government spending. [redacted]

These trends suggest a current account deficit for Nigeria next year that will range from \$5.5 billion to \$6.5 billion, essentially unchanged from the \$6-7 billion range we project for this year. If Lagos decides to continue the austerity program through all of 1983, we believe the related improvement in trade could reduce the current account deficit to around \$5 billion. [redacted]

In any case, these are financial requirements that are beyond the country's own resources. We expect Lagos will approach major international banks for funds. We also anticipate a buildup in short-term arrears to the extent possible without prompting a widespread refusal of foreign banks to issue letters of credit. We believe that the government will postpone additional cuts in imports, or juggle the composition of imports more heavily in favor of consumer goods, if public pressure over economic conditions mounts. These moves are consistent with what the government did during the financial crisis of 1978 and early 1979. [redacted]

Domestic Indicators

To estimate changes in domestic economic indicators, we first had to lay out the oil and nonoil sectors of the economy. The most important series for the oil sector was annual petroleum production rates for 1981 through 1983. In forecasting real growth in GDP in 1982, we project the value of output of the oil sector 25X1 itself declined about 7 percent. Sectors heavily dependent on oil income or oil-related expenditures—government services, construction, and domestic trade—were driven by a sharp revenue decline against exports that went out in late 1981 and early 1982. For these sectors, we believe spending would have been off 25X1 by about 15 percent from a year earlier. These two estimates result in a decline in GDP of 9 to 10 percent for 1982, [redacted] 25X1

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For 1983, key factors pointing to some improvement 25X1 in GDP are an increase in oil production and a bottoming out of declines in the services sector. On the other hand, tight constraints on imports will increase bottlenecks and slow other sectors, particularly manufacturing and construction. We believe 25X1 that any positive economic growth next year will depend in large part on weather conditions and consequent agricultural production. [redacted]

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